Government regulation stages a comeback

Sub prime mortgage troubles and other shady business practices have helped to revive interest in restraining aspects of capitalism.

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Regulation is back in Washington. Sub prime mortgage troubles, recalls of Chinese products, rising electricity prices in certain states, and recent mining disasters have all revived interest in restraining aspects of capitalism.

"The great pendulum in the sky, between letting [capitalism] rip and constraint in the market is certainly moving back toward regulation," says Robert Reich, secretary of Labor under President Clinton.

Mr. Reich likens the mood shift to previous historic periods. There was the Progressive Era after the 1890s, when excesses of capitalism prompted legislation to stop child labor, improve workplace safety, and limit working hours. The attitude was "Let's control this beast," says Reich, now a professor of public policy at the University of California, Berkeley.

After the anything-goes 1920s and the Great Depression, President Roosevelt brought the New Deal and tough new regulatory agencies to Washington.

But since the late 1970s, Reich says, business regulation has been mostly relaxed, and the nation is now "experiencing the result."

There was the Enron affair and other shady activities of corporate executives this decade. More recently there have been a series of problems with unsafe products and drugs, environmental issues (including global warming), and the widening inequality of incomes. "There is a growing sense that unlimited capitalism has its benefits. But there needs to be more regulation to protect consumers and investors," says Reich, now promoting his 11th book, "Supercapitalism."

Wild West capitalism has profited consumers and investors enormously. But the public good has in some cases been sacrificed, he says. So liberal and conservative lawmakers must work together to reduce the impact of corporate money on politics and enhance the power of citizens.

Capitalism is partly based on the thesis that the self-interest of entrepreneurs, managers, and workers combine to produce the most good for a nation. But when thinking shifts into the extreme "greed is good" mode, the impact can be damaging.

Washington has been caught "napping again and again," says Ralph Nader, the veteran public-interest advocate, citing unsafe cars, bad drugs, and damaging cosmetics as examples.

Some 90 percent of Americans, he says, would like to see regulation of genetically engineered foods and better labeling of the country of origin of products and their ingredients. But, as he sees it, the Food and Drug Administration is "toothless," the Occupational Safety and Health Administration is "a total disaster," the Federal Aviation Administration is "a farce," the Environmental Protection Agency has "pretty much shut down," the Federal Railroad Administration is "dead in the water," and the Forest Service is "timber-industry controlled." As for the Consumer Product Safety Commission, it is "really in bad shape," says Mr. Nader, who says he'll make a decision by year-end on whether to run for president again.

Today the nation is dealing with financial consequences rising from a host of unregulated mortgage brokers. Some of them issued many mortgages to home buyers who lacked sufficient income to handle the debt obligations. "Clearly, people didn't know what they were getting into," says Dean Baker, co-director of the Center for Economic and Policy Research in Washington. And many naive or ignorant investors were buying "collateralized debt obligations" that were really junk, and not sound investments. Presumably, proper regulation could have at least limited the financial danger.

With Democrats in control of Congress, a number of bills are being considered to deal with regulatory problems. Robert Crandall, an expert on regulation at the Brookings Institution in Washington, is pleased that the nation is avoiding some of the "crazy" regulations that followed the crisis of 1973-74 when the price of oil quadrupled and drivers faced long lines at gasoline stations.

If the nation does decide to attempt to limit the import of oil, he says, it should not just set higher fuel economy standards for vehicles, but put extra taxes on all uses of oil – such as fuel for blast furnaces, heating oil, oil used to generate electricity, and so on. "We have learned that markets work," says Mr. Crandall.

For example, the deregulation of telecommunications has helped bring down the cost of telephone service. Deregulated airlines today transport the masses, not just the elite.

"But nothing is perfect," he says, pointing to the deregulation of electricity.

While the cost of electricity has gone up nationwide, consumers in the 12 states that deregulated electricity have seen the biggest increases, finds a study by Marilyn Showalter, executive director of Power in the Public Interest, Olympia, Wash. Since 2000, she says, consumers in those states have paid $60 billion more for electricity than they would have if their rate increases had paralleled those in regulated states.

"If the purpose of this [deregulation] experiment was to lower prices for consumers, it has not worked," she says.